UNIVERSITI TEKNOLOGI MARA

RELATIONSHIP BETWEEN ESG DISCLOSURE AND FIRM PERFORMANCE: MALAYSIAN BANKING SECTOR

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AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulationsof Universiti Teknologi MARA. It is original and is the result of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules andRegulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct ofmy study and research.

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ABSTRACT

Earlier firms were evaluated mostly from their financial performance perspective, but with the increasing attention to environmental, social and governance (ESG) performance of firms became key concerns to stakeholders. Given the demand of stakeholders for increased transparency on environmental, social, and governance (ESG) issues, businesses all over the world have rapidly begun adopting the practice of sustainability reporting. While many studies exist on the association of ESG concerns of an organization with its financial profitability, the literature in the context of banking is still limited. The purpose of this study is to explore the relationship between Environmental, Social, and Governance Disclosure (ESG) and firm performance by focusing on the banking sector. Firm performance is being measured using operational (Return on Assets), financial (Return on Equity), and market performance (Tobin's Q). This study looked at 14 different banks in Malaysia over the course of seven years (2015-2021). All information for the variables is hand-collected and analysed using E-Views. The study shows that the relationship between performance and different disclosures is complicated; for instance, it is found that environmental disclosure (ED) has a positive influence on Tobin's Q but a negative impact on ROA and ROE. Additionally, corporate social responsibility disclosure (CSRD) has a negative effect on return on assets (ROA). The findings of this research can be implemented into a viable model that can be used by financial institutions all over the world to concentrate on the impact that ESG disclosure plays on performance.

CHAPTER 1: INTRODUCTION

1.1 Background of Research

Financial information included in the annual report of a business is usually utilised to evaluate and appraise the business's performance. Accounting's principal objective is to provide financial information about transactions that occur inside an organisation over the course of a specific time of period called as financial period (Barna et al., 2021). A high-quality financial report is one that is comprehensive, free of bias, transparent, free of material misstatements, and does not impact the judgments of people who use financial reports in an unfavourable manner (Akisik & Gal, 2017; Barna et al., 2021; Haarburger et al., 2020; Hawrysz & Maj, 2017; Ji, 2020; Oncioiu et al., 2020). Its purpose is to serve as a channel of communication for the company's financial status and performance, as well as for other information.

Businesses have traditionally provided financial data to aid in decision-making, but in recent years, reporting has grown to include non-financial data as well (Herrador-Alcaide & Hernández-Solís, 2019). Non-financial information disclosure is critical for the economy and society because it increases openness and provides information on the influence of business activities on societal issues such as the environment, human rights, and corporate social responsibility (Sierra-Garcia et al., 2018). Non-financial disclosure demonstrates not only a company's readiness to disclose proof of how it does business but also its commitment to integrate sustainability into its fundamental vision and decision-making manner to attain sustainable goals (Gazzola et al., 2020; Jackson et al., 2020; Rezaee & Tuo, 2017).

In recent times, the impact of corporate activities on society and the environment has attracted the attention of a wide range of stakeholders and researchers. As a result of this, data related to economic, environmental, and social issues are being requested to be more open, and corporations are